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SUBJECT: BOTSWANA ECONOMIC BRIEFS MARCH 2009

¶1. This is the third edition of U.S. Embassy Gaborone's Botswana Economic Briefs, covering economic and commercial news from February ¶2009. Topics of this edition are:

- Financial Intelligence Agency Coming
- Mmamabula Power Project Ready to go by Mid-Year
- Diamond Exports Plunge 90 Percent
- Bank of Botswana (BOB) Cuts Interest Rates
- Government to Develop Long-Term Strategy for Mines

Financial Intelligence Agency Coming

¶2. The Government of Botswana is in the process of establishing a Financial Intelligence Agency in an effort to curb money laundering, detection of financial offences and other suspicious cash transactions. The primary function of the agency will be to analyze and disseminate financial information to investigating authorities. The agency shall be the central unit responsible for requesting, receiving, analyzing and disseminating to an investigating authority, supervisory authority or comparable body, disclosures of financial information concerning suspicious transactions required by or under any enactment in order to counter financial offenses or concerning the financing of any activities or transactions related to terrorism. Parliament is expected to debate and pass into law during the current session an act that would enable the reporting of suspicious transactions and other cash transactions and provide for mutual assistance with comparable bodies outside Botswana or financial information. (Botswana Guardian, February 20, 2009)

Mmamabula Power Project Ready to go by Mid-Year

¶3. The construction of the 1,300 MW first phase of the Mmamabula coal-fired power station, which is projected to cost approximately US\$ 3 billion, is scheduled to begin during the second half of 2009. According to the President of CIC Energy, Greg Kinross, the company is on track to achieving a financial close for its proposed Mmamabula Power station in Botswana. Coal production from the mine, which will ultimately supply 6 million tons annually to the power station, will start in 2011, and the first generating set due to be commissioned in early 2013. The second generating set will be up and running four months after the first one is commissioned. The key development which has to take place before the financial close can be achieved is the signing of power purchase agreements (PPA) with Eskom (South Africa) and Botswana Power Corporation. Eskom will be importing 70 percent of Mmamabula's electricity. Under the terms of the new project, the financial risk will be covered by the preferred engineering, procurement and construction (EPC) contractor which is the Shanghai Electrical Group. New capacity expansion requirements in Southern Africa are in excess of 1,500 MW per annum for the next 20 years, of which more than 1,300 MW is in South Africa alone. COMMENT: The development of Mmamabula project will place Botswana as a significant player in the regional power market

as well as contribute to the country's economic diversification program. END COMMENT. (Business Monitor, February 16, 2009)

Diamond Exports Plunge 90 Percent

14. Botswana's diamond exports plunged by close to 90 percent in the months between August and November 2008 as the global recession hit demand for luxury goods. Figures released by Botswana's Central Statistics Office (CSO) have revealed that diamond exports, which amounted to P3.3 billion (US\$ 423 million) in August, fell to P 2.3 billion (US\$ 294 million) in September and P 821 million (US\$ 103 million) in October before plummeting to a mere P 371 million (US\$ 46 million) in November as a result of falling demand and weakening prices. In its 2009/2010 budget, the Government announced that it will pump P 10.56 billion (approx US\$ 1.32 billion) into the economy to cover developmental projects in a bid to boost economic activity.

Botswana is a net importer of goods, particularly fuel and food, and is economically dependent on mineral exports (especially diamonds), and its growth prospects are largely built around investment in minerals. The latest trade figures from CSO indicate that a 55 percent plunge in diamond export in November led to a P 2 billion trade deficit in the same month. This deficit will certainly eat into Botswana's foreign exchange reserves, which in the budget were reported to stand at P 72 billion (US\$ 9 billion), the equivalent of 30 months' goods and services import cover. Looking on the brighter side, analysts say that the "long term fundamentals of the industry continue to hold considerable promise in spite of the current turmoil. The diamond industry is now in a stabilizing phase where stocks, prices and supply and demand have to

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find a new equilibrium." (Mmegi Business Week, February 20, 2009)

Bank of Botswana (BOB) Cuts Interest Rates

15. In line with the falling inflationary pressures and the need to support economic activity in view of the global economic recession, the BOB has reduced the bank rate from 15 percent to 14 percent. The Bank rate cut comes shortly after the Governor of BOB Linah Mohohlo announced in her 2009 monetary policy statement that the Bank will ease monetary policy this year. This is the second time the Bank has reduced interest rates in the past three months, with the last reduction in December 2008 when it fell by 0.5 percent. Although inflation remains above the Bank's medium-term target range of 3-6 percent, it is anticipated that inflation will move towards it in 2009. According to a statement released by the Bank's Public Relations Officer Chepete Chepete, the Bank remains committed to responding appropriately to all economic and financial developments in order to maintain inflation within the medium-term objective range, which is supportive of long-run sustainable economic growth. (Monitor Business, 02 March 2009)

Government to Develop Long Term Strategy for Mines

16. The Botswana Government has announced plans for a long-term strategy to ensure the survival of the country's mining sector. The strategy will run alongside current government interventions to stabilize the sector. These entail Government guarantees on bridging loan finance to mining houses and deferral of royalties and certain levies. The strategy is due to be implemented in April 2009. The move comes at a time when approximately 2000 workers in the mining sector have either been retrenched or put on forced leave. A UK-based consulting company which is assessing the country's mining sector will provide recommendations that will be incorporated in the long-term strategy. The Minister of Minerals, Energy and Water Resources revealed the strategy and other interventions recently in South Africa where he said the global economic crisis had reduced access to credit and resulted in the deferral of new capital projects and that there had been a slowdown in exploration as mine developers sought to conserve cash. COMMENT: Botswana's mining sector continues to suffer. Debswana announced in early March that over 500 of its employees stand to be affected by further reductions within two of the company's mines. END COMMENT.

(Mmegi Business Week, February 27, 2009)

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